

Educational Loan Notes

Michigan Guaranty Agency

Michigan Higher Education Assistance Authority

September 2001

FISCAL YEAR 1999 COHORT DEFAULT RATES LOWEST EVER

The U.S. Department of Education (ED) announced that the national cohort default rate has fallen to the lowest rate ever, 5.6 percent for Fiscal Year (FY) 1999. ED accredited the low national default rate as a concerted effort by colleges and universities to increase borrower awareness of their repayment obligations, track borrower delinquencies, and counsel borrowers who get behind in their payments.

Starting at noon on Thursday, September 13, a searchable database containing FY 1999 school cohort default rate information was available through the following web page: http://bc0101.ed.gov/CFAPPS/COHORT/search_cohort.cfm.

ED's Office of Student Financial Assistance (SFA) sent the FY 1999 official cohort default rate notification packages to schools via overnight mail on Monday, September 17, 2001. Later that same week, school cohort default rate information was also updated at the following web address:

<http://www.ed.gov/offices/OSFAP/defaultmanagement/cdr.html>.

Cohort default rate is defined by statute as the percentage of borrowers who enter repayment in a certain fiscal year and default before the end of the next fiscal year. The new national default rate is for FY 1999, the most current data available, and represents the cohort of borrowers whose first loan repayments came due on or after October 1, 1998, and who defaulted before September 30, 2000. A default is defined as 270 days without a payment.

Look for more information concerning the FY 1999 cohort default rates in the next issue of *Educational Loan Notes*.



In This Issue

<i>Title IV Loan Programs Guidance in the Aftermath of September 11 Tragedy.....</i>	<i>2</i>
<i>Education Tax Tips.....</i>	<i>3</i>
<i>2001 Fall Lender Workshop.....</i>	<i>4</i>
<i>2001 Fall School Workshops.....</i>	<i>4</i>
<i>Common Manual Updates.....</i>	<i>5</i>
<i>School List Updates.....</i>	<i>5</i>
<i>Lender List Updates.....</i>	<i>5</i>
<i>The ED Pipeline.....</i>	<i>5</i>
<i>Calendar of Upcoming Events.....</i>	<i>6</i>

Educational Loan Notes is a monthly news publication of the Michigan Department of Treasury – Michigan Guaranty Agency for members of the financial aid community in Michigan. Questions or comments may be sent to Jim Peterson, editor, Michigan Guaranty Agency, School Services Unit, P.O. Box 30047, Lansing, Michigan 48909-7547, or call 1-800-642-5626 extension, 36944 or via email petersonj@state.mi.us.

MICHIGAN GUARANTY AGENCY

Pat Scott

Director

Toots Lapata-Victorson

Deputy Director, Guaranty Services

Deirdre Moore

Manager, School Services

Betty Calloway

Manager, Lender Services

Jim Evans

Manager, Customer Services



The mission of the Michigan Guaranty Agency is to provide Michigan residents with optimum access to postsecondary educational opportunities through low-interest, long-term educational loans.



TITLE IV LOAN PROGRAMS GUIDANCE IN THE AFTERMATH OF SEPTEMBER 11 TRAGIC EVENTS

The U.S. Department of Education (ED) released the following Dear Colleague Letter for guidance in the Title IV Loan Programs.

GEN-01-11

September 2001

Subject: Recent Terrorist Attacks - Relief for Borrowers in the Title IV Loan Programs

Summary: This letter is the first of a series that will provide guidance regarding the administration of the federal student aid programs authorized under Title IV of the Higher Education Act as a result of the terrorist attacks on the United States. The first three letters (this letter and ones that will address institutional reporting deadlines and the treatment of students and borrowers who are affected by their call to active military duty) should be available by the end of this week. We will also publish a letter that will comprehensively address other issues that relate to regulatory and administrative relief for those affected by the terrorist attacks.

This letter specifically addresses the immediate needs of borrowers who are in repayment on a loan under the Federal Family Education Loan (FFEL), the William D. Ford Federal Direct Loan (Direct Loan), and Federal Perkins Loan programs.

Dear Colleague:

On September 11, 2001, President Bush designated all five boroughs of New York City (The Bronx, Brooklyn, Manhattan, Queens and Staten Island) as eligible for national disaster assistance. There may be borrowers affected by the attacks who will need assistance with their loan obligation. The following provides guidance to Title IV loan holders on the granting of forbearances and discharges to affected borrowers. It also provides guidance on the treatment of defaulted borrowers who have been affected by the disaster.

Forbearance in the FFEL and Direct Loan Programs

Forbearance for borrowers who reside or work in the designated disaster area

Until it can be determined whether a borrower qualifies for a deferment or discharge because of disruptions caused by the terrorist attacks, the Secretary is authorizing FFEL lenders to grant mandatory administrative forbearance to certain borrowers (or endorsers, if applicable) who either reside in or, to the extent the lender has knowledge, work in the designated disaster area (New York City). Mandatory administrative forbearance does not require either a request or documentation from the borrower. This period of mandatory administrative forbearance is effective from September 11, 2001, through January 31, 2002. The Secretary is granting administrative forbearance to similarly situated Direct Loan borrowers for the same period. See 34 CFR 682.211(i)(2)(i) and 34 CFR 685.205(b)(8).

Borrowers must be notified that an administrative forbearance has been granted to allow them to pursue other potential program benefits that may be available to them or to ask for resumption of normal billing and payment schedules. Forbearance beyond January 31, 2002, may be granted only based on supporting documentation and with a written forbearance agreement with the borrower.

Forbearance for other borrowers

Based upon the request of the affected borrower, the borrower's family or another reliable source, borrowers who have been impacted by the terrorist attacks (other than those who reside or work in New York City) should be granted forbearance for a period that ends no later than January 31, 2002, without supporting documentation and without a written forbearance agreement. The reasons for granting the forbearance should be documented in the borrower's loan records. Forbearance beyond the initial period will require supporting documentation and a written agreement with the borrower.

During the initial forbearance process, lenders are encouraged to examine the borrower's eligibility for available deferment or discharge benefits.

Defaulted Borrowers in the FFEL and Direct Loan Programs

The Secretary will, without a request from the borrower, curtail collection activities from

(Continued on the next page.)

September 11, 2001, through January 31, 2002, for defaulted borrowers who reside or work in the designated disaster area (New York City) and authorizes guaranty agencies in the FFEL Program to do the same for their defaulted borrowers. For other defaulted borrowers who have been impacted by the disaster the Secretary will and guaranty agencies may, upon request of the borrower, curtail collection activities for a period that ends no later than January 31, 2002.

Forbearance in the Federal Perkins Loan Program

Perkins Loan borrowers who reside or work in the designated disaster area (New York City) should be granted a forbearance without a borrower request or written forbearance agreement from September 11, 2001, through January 31, 2002. Borrowers must be notified that a forbearance has been granted to allow them to pursue other potential program benefits that may be available to them. Forbearance beyond this period may be granted only based on a written request of the borrower, supporting documentation and with a written forbearance agreement with the borrower.

Collection efforts on the accounts of defaulted borrowers in the designated areas may be discontinued from September 11, 2001, through January 31, 2002.

For other affected borrowers, forbearance should be granted for a period that ends no later than January 31, 2002, based on the request of the borrower, the borrower's family or another reliable source (which need not be in writing) and without supporting documentation and without a written forbearance agreement.

Forbearance beyond the initial period will require supporting documentation and a written forbearance agreement with the borrower. For defaulted borrowers, upon request of the borrower, the school may discontinue collection efforts for a period that ends no later than January 31, 2002.

Discharges

The Secretary encourages FFEL lenders (without approval from the Secretary or from the guaranty agency), guaranty agencies, and Perkins schools to use "reliable information" of a borrower's (or the dependent student in the case of a PLUS loan) death due to the terrorist attacks, as the information becomes available, to immediately suspend collection activities without contacting the borrower's family for whatever period is necessary in order to process a death discharge. The Secretary reminds guaranty agencies and schools that they may grant a death discharge on the basis of exceptional circumstances using reliable documentation other than an original or certified copy of a death certificate.

"Other reliable documentation" may include, but is not limited to, obituary notices and published listings of the dead provided by a Federal, State, or local government entity, or by one of the affected airlines. The Secretary will implement these same guidelines for the Direct Loan Program and for other loans held by the Department.

Guaranty agencies and schools are encouraged, at a later date, to obtain a certified copy of the death certificate if one is available through alternative sources without contacting the borrower's family.

Due Diligence Timelines

Due to disruptions in mail and other communications throughout the country, the Secretary will, for the period of September 11, 2001 through October 31, 2001, or later if the Secretary determines that these disruptions still exist, not enforce time sensitive deadlines that lenders and guaranty agencies in the FFEL Program and institutions in the Perkins Loan Program normally are required to comply with in their loan due diligence activities.

I want to thank you in advance for serving those borrowers who have been impacted by these terrible tragedies.

Sincerely,

William D. Hansen
Deputy Secretary

EDUCATION TAX TIPS

The Michigan Guaranty Agency would like to remind lender and school financial aid personnel of some important tax incentives available to families that can help take the bite out of college costs. Listed below are highlights of the Economic Growth and Tax Relief Reconciliation Act of 2001 that could help in lowering the cost of education. Although the act does not make changes to the Hope Scholarship and Lifetime Learning credits, we have included a recap of those plans also. Studies have proven that many eligible families are not taking advantage of these tax credits.

(Continued on the next page.)

Economic Growth and Tax Relief Reconciliation Act of 2001

- An across-the-board rate cut will reduce the federal tax rates over the next five years until the current 39.6 percent rate is reduced to 35 percent, and the current 28 percent rate is reduced to 25 percent.
- The Alternative Minimum Tax exemption for married individuals filing a joint return is increased from \$45,000 to \$49,000.
- The standard deduction for a married couple filing a joint return is increased to twice the standard deduction for an unmarried individual filing as a single taxpayer. This increase is phased in over a five-year period beginning in 2005.
- The child tax credit will be increased from \$500 to \$1,000 over a ten-year phase-in period. The credit will be \$600 for the 2001 through 2004 tax years.
- A deduction for college tuition is allowed in the amount of \$3,000 in 2002 and 2003 and a \$4,000 deduction in years 2004 and 2005. To claim the deduction, adjusted gross income for married couples filing joint tax returns must be less than \$130,000. Furthermore, the deduction may not be taken in the same year as a Hope Scholarship or Lifetime Learning tax credit for the same student.

The act makes several changes to education IRAs. Beginning in 2002, the maximum contribution for each child under age 18 will increase from \$500 to \$2,000 each year. The new law also allows contributions to be made until April 15, after the close of the applicable tax year. The eligibility phase out for joint filers has been

increased from \$190,000 to \$220,000. Although contributions remain non-deductible, withdrawals are tax free for qualified postsecondary education expenses. In addition, distributions from education IRAs can be used to pay for elementary and secondary school tuition or expense regardless of whether the school is public or private.

The act repeals the restriction that student loan interest could only be deducted during the first 60 months during which interest payments are required. Eligibility for joint borrowers, originally phased out at adjusted gross incomes between \$60,000 and \$75,000, now becomes phased out between \$100,000 and \$130,000.

Hope Scholarship and Lifetime Learning Credits

The Hope Scholarship (actually a tax credit rather than a scholarship) allows certain qualified postsecondary education expenses including tuition to be taken directly off one's tax bill. For each of the first two years of post-secondary education only, the Hope Scholarship offers up to \$1,500 in tax reduction (100 percent of the first \$1,000 of expenses plus 50 percent of the next \$1,000) for each dependent student. Beyond the first two years, the Lifetime Learning credit of up to \$1,000 per year for each student may be available. This credit is allowed based on 20 percent of the first \$5,000 in eligible expenses. The eligibility for the Hope and Lifetime Learning Credits is phased out between \$80,000 and \$100,000 in adjusted gross income for couples filing jointly. The credits are not available to married individuals filing separate returns.

2001 FALL LENDER WORKSHOP

The Lender Services Unit is planning a lender workshop for October 16, 2001, at Broadstreet North Restaurant and Banquet Center in Flushing, Michigan.

Tentative agenda topics include:

- Policy and Regulatory Updates
- Student Loan Consolidation
- *Common Manual* Updates
- National Student Loan Data System
- Lender's Interest and Special Allowance Request and Report (Form 799)
- "Q" & "A's"

Sallie Mae/USA Group's Education Resource Center staff will present these update sessions.

Registration letters were mailed September 11, 2001. If you have questions concerning the workshop, please contact the Lender Services Unit at ext. 36076.

2001 FALL SCHOOL WORKSHOPS

Mark your calendar for the 2001 Fall School Workshops. Once again MGA is offering three different locations. The workshops are scheduled as follows:

Tuesday, November 27, 2001

Double Tree Hotel
Novi, MI

Wednesday, November 28, 2001

Bucks Run
Mt. Pleasant, MI

(Continued on the next page.)

Thursday, November 29, 2001

Notos Restaurant and Conference Center
Grand Rapids, MI

Tentative agenda topics include:

- Policy and Regulatory Update
- E- Signature
- Student Loan Consolidation
- Satisfactory Academic Progress

Letters will be sent out in October with a complete agenda and registration form. If you have questions or suggestions to include in the workshops, please feel free to contact the School Services Unit at ext. 36074.

COMMON MANUAL UPDATES

The fifty-fourth set of *Common Manual* updates was mailed in September to MGA clients. These updates represent a number of policy and wording changes approved by the Governing Board on August 16, 2001.

- Lender of Last Resort
- Receipt of Forbearance After Claim Files/ Recalls
- Cure Procedures
- Pro Rata Refunds

If you have any questions about this or past mailings of *Common Manual* changes or updates, please contact Linda Sienkiewicz, ext. 50077.

SCHOOL LIST UPDATES

The following changes should be recorded by lenders on MGA's "Active Michigan School List"

dated June 21, 2001. If you have any questions regarding these changes, please contact our School Services Unit, ext. 36074.

Institution Address Change

Elsa Cooper Institute of Court Reporting (023429-00), Southfield

Change address to 24445 Northwestern Highway, Suite 220, Southfield, MI 48075.

LENDER LIST UPDATES

School personnel should record the following actions on the "Participating Lender List" dated June 20, 2001. Please make the appropriate changes in all sections of the list as needed. If you have any questions regarding these updates, please contact the Lender Services Unit, ext. 36076.

Correction

Hillsdale County National Bank should no longer be listed under EFS Eligible Lender Trust, 824573. They should be listed in the white section with the lender code 822661. Their address is: c/o EFS, P.O. Box 2307, Indianapolis, IN 46207. Telephone: 800-635-1867.

Institution Name Change

Old Kent Bank/Fifth Third Bank has changed their name to Fifth Third Bank for lender codes **803408, 806078, and 808780.**

Joined Referral Loan Program

The three institutions below have joined Sallie Mae Education Trust (802218). Their address is: c/o Sallie Mae-FL, P.O. Box 59012, Panama City, FL 32444. Telephone: 888-272-5543.

Co-op Services Credit Union, 829144
The State Bank, 826268
United Bank & Trust, 806157

The four institutions below have joined Comerica Bank's referral loan program

(822660). Their address is: c/o UNIPAC, P.O. Box 64693, St. Paul, MN 55164-0693. Telephone: 888-486-4722.

Central State Bank, 824944
First National Bank of St. Ignace, 805916
Saginaw County Employees Credit Union, 222004
United Bank of Michigan, 832412

THE "ED" PIPELINE

Following is a list of some of the most recent ED correspondence for lenders and schools.

Following is a list of some of the most recent ED correspondence for lenders and schools.

Dear Partner August 2001 GEN-01-10

This letter provides information on the major changes to the Renewal Free Application for Federal Student Aid (Renewal FAFSA) process for 2002-2003. It also includes procedures and tips for using SFA's FAA Access on the Web site and record layouts for Type 2 PIN request files.

Dear Partner August 2001 CB-01-11

This letter announces that the Campus-Based FISAP is moving to the Web in early September.



Calendar of Upcoming Events

September 2001

- 3 MGA Office Closed
- 12-14 Michigan Association of Community Bankers
Grand Traverse Resort
Acme, MI
- 14-15 Michigan Association of Credit Unions
Amway Grand Hotel
Grand Rapids, MI
- 19-21 MBA Retail Lending Conference
Ashman Court Hotel
Midland, MI
- 25 Guaranty Agency Advisory Committee
Michigan Athletic Club
East Lansing, MI

October 2001

- 16 MGA Lender Workshop
TBD
Flint, MI

November 2001

- 12 MGA Office Closed
- 22-23 MGA Office Closed
- 27 Fall School Workshop
DoubleTree Hotel
Novi, MI
- 28 Fall School Workshop
Bucks Run
Mt. Pleasant, MI
- 29 Fall School Workshop
Notos Restaurant and Conference Center
Grand Rapids, MI

If you need further information or wish to submit items for the calendar, please contact Jim Peterson, Editor, at ext. 36944, or via e-mail at petersonj@state.mi.us